# DOME PETROLEUM LIMITED

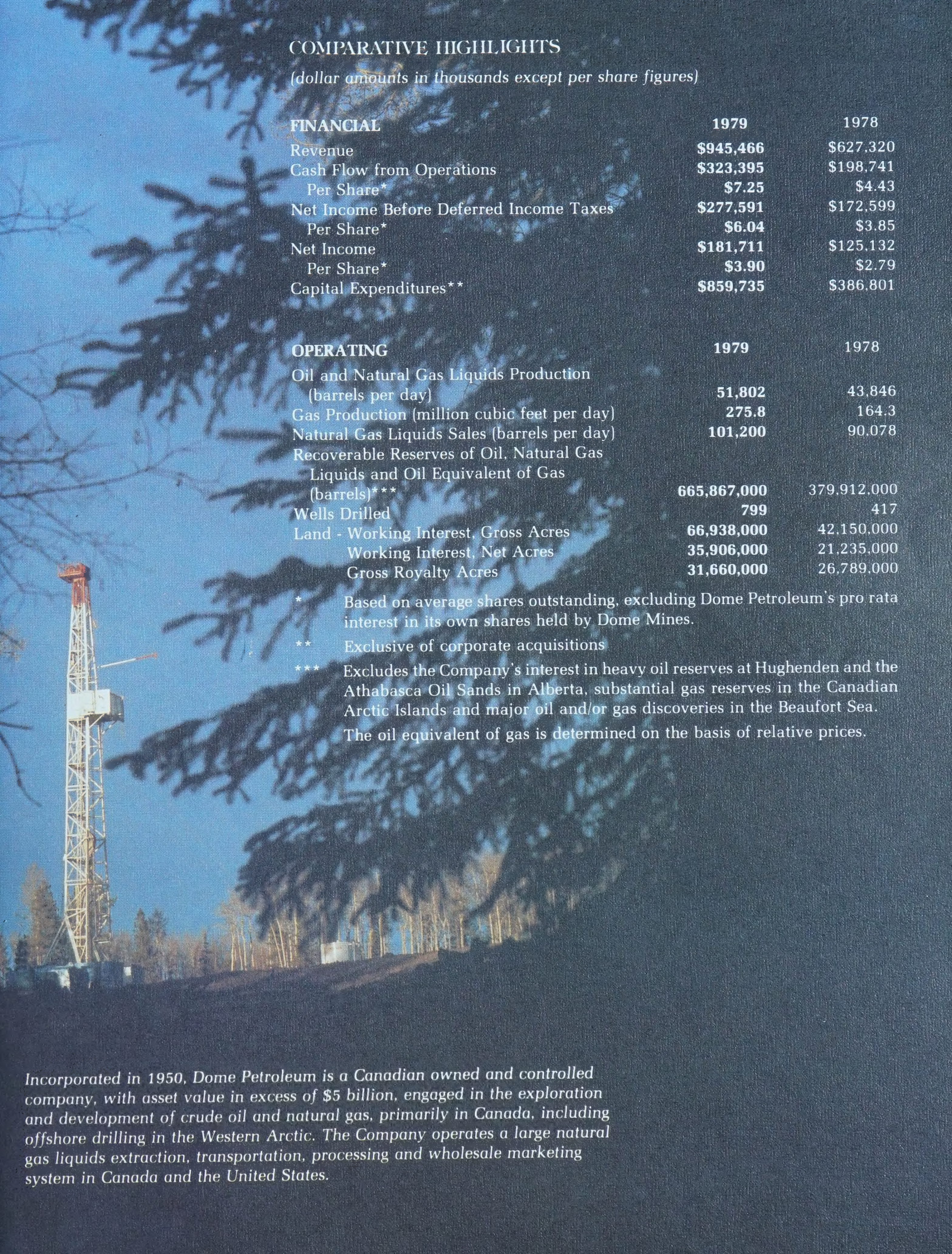
## 1979 ANNUAL REPORT

CONTENTS



ANNUAL MEETING

The Annual General Meeting of the Shareholders will be held in the Ontario Room of the Royal York Hotel, Toronto, Ontario, on May 5, 1980 at 2:00 p.m. A formal notice of meeting and proxy form are enclosed with this report. Please return your proxy if you are unable to attend the meeting. The proxy may be revoked if you subsequently decide to attend the meeting.



## COMPARATIVE HIGHLIGHTS

*(dollar amounts in thousands except per share figures)*

| FINANCIAL | 1979 | 1978 |
|---|---|---|
| Revenue | **$945,466** | $627,320 |
| Cash Flow from Operations | **$323,395** | $198,741 |
| Per Share* | **$7.25** | $4.43 |
| Net Income Before Deferred Income Taxes | **$277,591** | $172,599 |
| Per Share* | **$6.04** | $3.85 |
| Net Income | **$181,711** | $125,132 |
| Per Share* | **$3.90** | $2.79 |
| Capital Expenditures** | **$859,735** | $386,801 |

| OPERATING | 1979 | 1978 |
|---|---|---|
| Oil and Natural Gas Liquids Production (barrels per day) | **51,802** | 43,846 |
| Gas Production (million cubic feet per day) | **275.8** | 164.3 |
| Natural Gas Liquids Sales (barrels per day) | **101,200** | 90,078 |
| Recoverable Reserves of Oil, Natural Gas Liquids and Oil Equivalent of Gas (barrels)*** | **665,867,000** | 379,912,000 |
| Wells Drilled | **799** | 417 |
| Land - Working Interest, Gross Acres | **66,938,000** | 42,150,000 |
| Working Interest, Net Acres | **35,906,000** | 21,235,000 |
| Gross Royalty Acres | **31,660,000** | 26,789,000 |

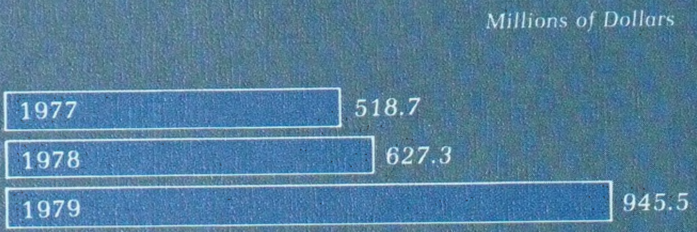
* Based on average shares outstanding, excluding Dome Petroleum's pro rata interest in its own shares held by Dome Mines.

** Exclusive of corporate acquisitions

*** Excludes the Company's interest in heavy oil reserves at Hughenden and the Athabasca Oil Sands in Alberta, substantial gas reserves in the Canadian Arctic Islands and major oil and/or gas discoveries in the Beaufort Sea. The oil equivalent of gas is determined on the basis of relative prices.

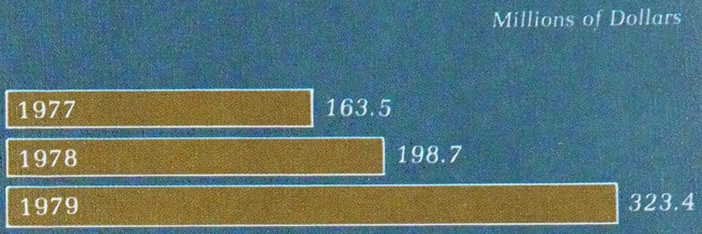
*Incorporated in 1950, Dome Petroleum is a Canadian owned and controlled company, with asset value in excess of $5 billion, engaged in the exploration and development of crude oil and natural gas, primarily in Canada, including offshore drilling in the Western Arctic. The Company operates a large natural gas liquids extraction, transportation, processing and wholesale marketing system in Canada and the United States.*

## REVENUE
- After Royalties



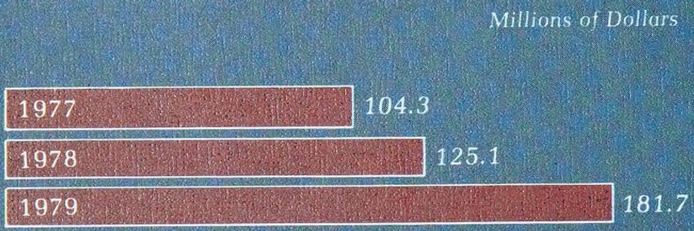

Revenue increased 51% in 1979 to $945,466,000.

## CASH FLOW
- From Operations



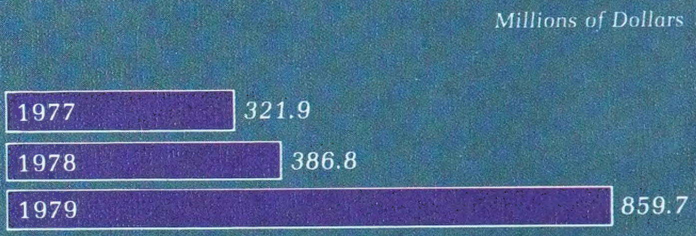

Substantial capital investment in prior years contributed to a 63% increase in Cash Flow in 1979 to $323,395,000 ($7.25 per share).

## NET INCOME
- After Deferred Income Taxes



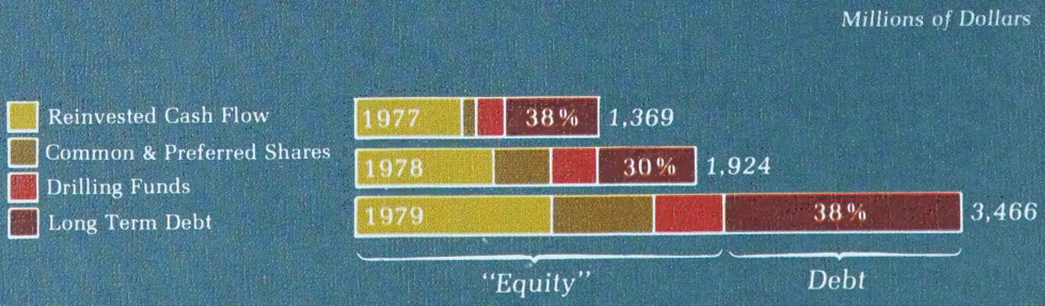

Net Income in 1979 increased 45% to $181,711,000 ($3.90 per common share) compared to $125,132,000 ($2.79 per common share) in 1978.

## CAPITAL EXPENDITURES




Capital and Exploration Expenditures (excluding corporate acquisitions) in 1979 amounted to $859,735,000 compared to $386,801,000 in 1978.

## CUMULATIVE FINANCING



# REPORT OF THE DIRECTORS

The Company continued its growth record in 1979, with the major operational emphasis on oil and gas exploration and production in Canada, along with related transportation and support facilities. Significant increases were achieved in all aspects of the Company's operations, the highlights of which follow:

**Capital Expenditures** (excluding corporate acquisitions) increased to $859.7 million in 1979 from $386.8 million in 1978, representing close to three times the Company's current cash flow.

**Production** of oil, natural gas liquids and oil equivalent of gas averaged 90,940 barrels per day (BPD) in 1979, compared to 65,657 BPD in 1978.

**Natural Gas Liquids** sales increased to 101,200 BPD in 1979 from 90,078 in 1978, maintaining Dome's position as the largest natural gas liquids producer and marketer in Canada.

**Reserves** (measured in barrels of oil, natural gas liquids and oil equivalent of gas) increased to 665,867,000 in 1979 from 379,912,000 in 1978, after producing 21,382,430 barrels in 1979. This total excludes tar sand oil, heavy oil at Hughenden and substantial oil and gas reserves in the Beaufort Sea and Arctic Islands as well as oil and gas reserves acquired from Kaiser Resources in February, 1980.

**Oil and Gas Rights** held by the Company in the Western Sedimentary Basin of Canada increased in 1979 to 19,610,654 gross acres (12,276,438 net acres) from 5,955,178 gross acres (3,114,825 net acres) in 1978. Total oil and gas rights increased to 66,938,000 gross acres (35,906,000 net acres) from 42,150,000 gross acres (21,235,000 net acres).

**Exploration and Development** drilling programs conducted in 1979 in Canada and the United States included 351 gross exploratory wells (167 net wells) and 448 gross development wells (197 net wells). Exploratory drilling increased 46% and resulted in the completion of 74 oil wells and 144 gas wells for a 62% success ratio. Total footage drilled increased to 1,770,000 feet in 1979, almost double that of 1978.

Exploration continued in the **Arctic Islands** where the Company holds interests in 20,432,000 gross acres (12,948,000 net acres). Two exploratory wells — Char G-07 and Balaena D-58 — are currently drilling on this acreage southeast of King Christian Island. The Company holds in excess of a 50% economic interest in these wells which have had significant shows of petroleum hydrocarbons.

In addition, Dome owns indirectly through Panarctic an approximate 4.5% interest in 55,000,000 acres on which over 15 trillion cubic feet (Tcf) of gas reserves have been proved. Panarctic and a consortium of major companies announced in May what could be the most significant disovery in the Arctic Islands to date, namely Whitefish H-63, located in the Lougheed Island area. A number of similar type structures are located on adjoining Dome acreage.

**Beaufort Sea** exploratory drilling operations in 1979 were the most successful to date, highlighted by the September 5 announcement of a substantial oil discovery at Kopanoar M-13 with an indicated flow rate in excess of 12,000 BPD. The 1980 drilling program will include a Kopanoar step-out well, the drilling of two large new structures and the testing of wells drilled in 1979.

**Acquisitions** - In October the Company acquired a 65% interest in Mesa Petroleum's Canadian oil and gas properties and related facilities, subject to production payments. In addition, the Company increased its ownership of TransCanada PipeLines to 49% and in Dome Mines to 39%.

TransCanada PipeLines is the only transporter of natural gas from Western Canada to Eastern Canadian and United States markets. Gross revenue for 1979 was $2.58 billion and net income applicable to common shares was $87.2 million.

Dome Mines (and its affiliated companies) is Canada's largest gold producer, with interests in uranium and other mineral production. Bullion revenues for 1979 were $129.7 million and net income was $89.3 million. The Company's interest in Dome Mines cost $148,853,000 and had a market value of $564,542,000 on March 20, 1980.

In February 1980, Dome Petroleum acquired all the outstanding shares of Kaiser Petroleum. This company has reserves of 112 million barrels of oil capable of producing in excess of 25,000 BPD and 663 billion cubic feet (Bcf) of gas currently producing at a rate of 75 million cubic feet of gas per day (mmcf/d). In addition, this company holds 10.02 million gross acres of wildcat lands representing 3.24 million net acres.

As a result of these transactions, Dome now owns the largest holdings of exploratory oil and gas rights in the Western Sedimentary Basin of Canada. The development of these substantial oil and gas rights will provide a strong base for growth in production and income over the coming decade.

A **share split** was approved by the shareholders at the 1979 Annual Meeting and accordingly the Company's common shares were split on the basis of four new shares for each existing share.

**Deferred taxes** appearing on the Company's balance sheets do not represent a liability of the Company. When Dome becomes subject to paying income taxes, it will pay tax only on the income in the year incurred, not on the income of prior years as long as the Company maintains a modest level of capital expenditures.

## INDUSTRY OVERVIEW

The past year saw the establishment of record levels of industry drilling activity in response to price improvements and other exploration incentives. During 1979 Dome drilled more footage in Canada than any other operator.

Although the prospects for the Canadian oil and gas industry have never been more favourable, serious problems exist. It is the Company's intention to make a substantial contribution to the solution of these problems.

The Western Sedimentary Basin of Canada has a major surplus of natural gas. Even without the vast potential of the frontiers, Canada's current gas supply substantially exceeds Canadian long term requirements. In order to maintain the tempo of exploration activity in Canada and to enable the industry to meet Canada's energy requirements, new markets must be developed for this gas.

TransCanada PipeLines Limited, in which the Company holds an approximate 49% interest, is moving aggressively to develop new markets for natural gas in Canada. In addition, TransCanada has taken a 30% interest in the proposed $1.5 billion Northern Border Pipeline, and has also arranged the financing for this line. This pipeline will provide the means for the marketing of substantial portions of Canada's surplus natural gas to the United States and will make a valuable contribution to Canada's industrial activity.

Another industry problem is related to crude oil supply.

Canada has enough potentially recoverable oil, including tar sand oil, to last at least 200 years, exclusive of great untested oil and gas potentials in the Arctic and offshore East Coast.

Development of our domestic oil resources, though more expensive than current proven Canadian reserves, would give Canada political and economic independence and eliminate the current major drain on Canada's balance of payments caused by the continued purchasing of offshore oil from politically unstable sources.

Canada's current domestic oil price is less than half the world price and the netback to the producer is not sufficient to encourage increased exploration, especially of the more inaccessible oil reserves. Given proper incentives, the industry can readily achieve energy self sufficiency for Canada.

If Canada has a long-term, secure supply of energy, it will attract industry from all over the world. No other developed nation in the Western world has Canada's ratio of supply to demand. Security of supply is far more important than price.

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The Company's greatest resource is its people. The Board of Directors appreciates their efforts and applauds their successes in 1979.

J.P. GALLAGHER
Chairman

W.E. RICHARDS
President

April 11, 1980

# EXPLORATION AND DEVELOPMENT REVIEW

*Exploratory drilling in the Deep Basin area of west central Alberta.*

## EXPLORATION

New exploratory drilling records were set by the Company in Canada during 1979 in both footage and numbers of wells drilled.

As one of Canada's most active exploration companies, Dome drilled 1,770,000 feet of hole in Dome interest wells in Canada, an increase of 94% over the 1978 footage drilled. This represented 13% of the total exploratory footage drilled in Canada during 1979.

The Company participated in the drilling of 799 gross wells (364 net wells) during the year, compared with 417 gross (234 net wells) in 1978.

The drilling of 351 gross exploratory wells by the Company resulted in 144 gas discoveries and 74 oil discoveries compared to 75 gas and 27 oil discoveries for 1978. In addition, 52 exploratory wells were drilled at no cost to Dome as a result of farmout agreements with other companies.

(Note - a discovery is commonly defined as a successful well which encounters a new producing zone or is more than 1½ miles from a known producing well.)

**Western Canada**

Exploratory drilling by Dome in Alberta, British Columbia and Saskatchewan during 1979 resulted in 38 oil and 135 natural gas discoveries as shown on the accompanying map.

The Company's exploratory drilling programs were particularly sucussful in the following areas:

The Deep Basin area of Alberta is located approximately 240 miles northwest of Edmonton and immediately east of the Foothills. Within this area the following encouraging oil and gas discoveries were made during 1979:

- Lator - Exploration drilling of nine wells resulted in five oil and four gas discoveries. Development drilling is currently in progress in this area. Dome has interests ranging from 25% to 75% in 150,000 gross acres (95,000 net acres).

*Below: Seismic survey crew under contract for Dome in southwestern Alberta.*

*Lower Right: Outcrop of Cretaceous Cardium sandstone, a major producing horizon in Pembina, Willesden Green and Deep Basin oilfields.*

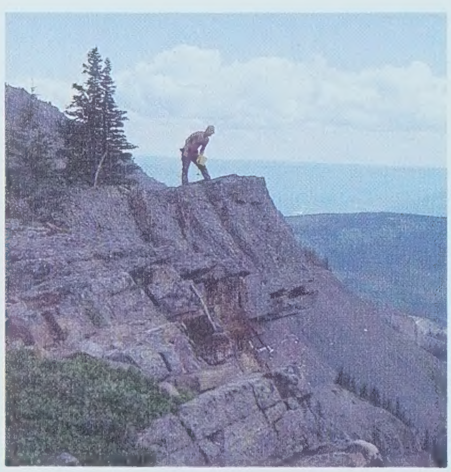
- Kakwa-Cutbank - 22 exploratory wells were drilled in this area during 1979, resulting in 18 gas and three oil discoveries. Considerable development drilling is planned for this region during 1980. Dome interests range from 27% to 75% in in 337,862 gross acres (166,197 net acres).

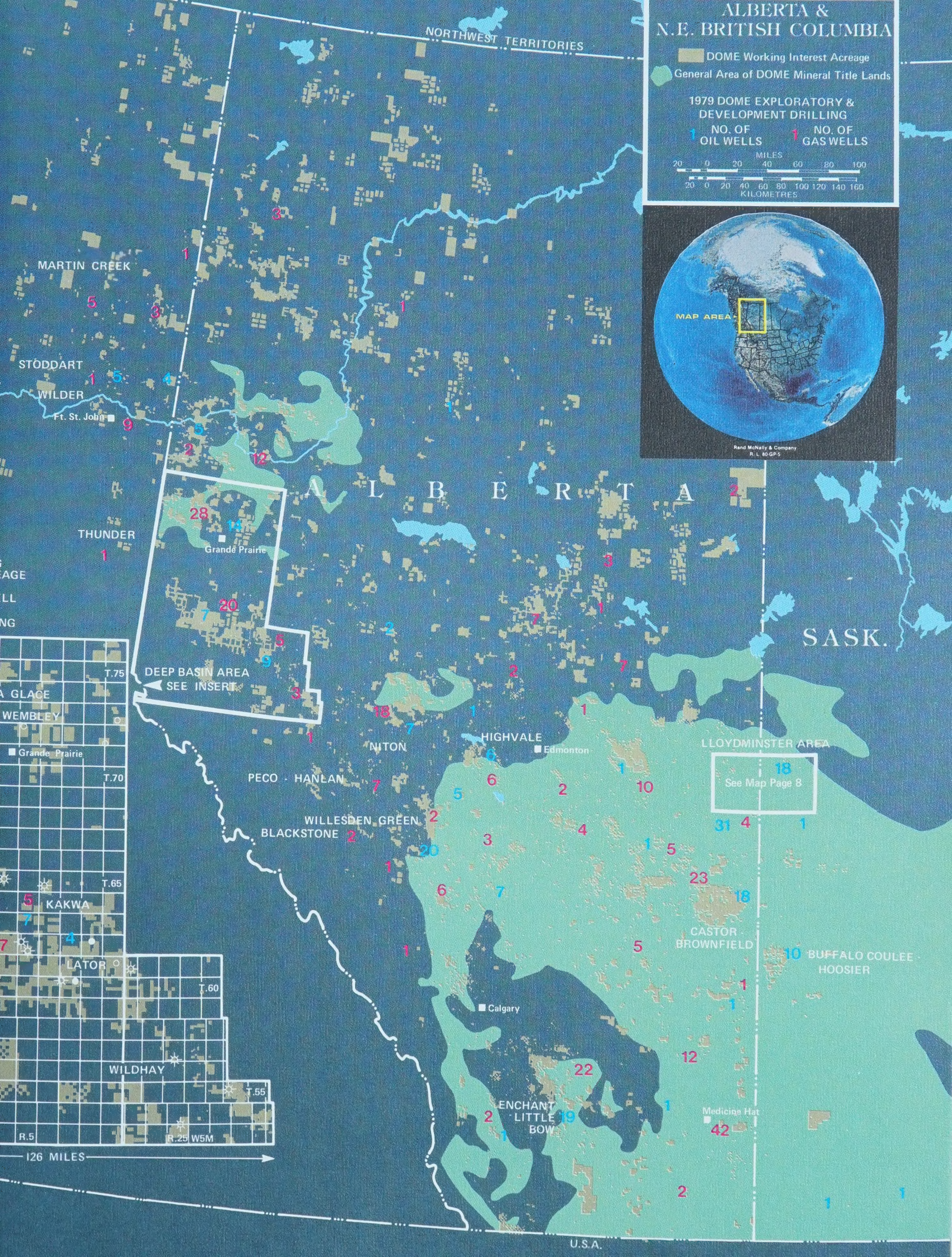
- Wembley-La Glace - 12 exploratory wells were drilled during 1979, resulting in seven oil and three gas discoveries. The Company has interests ranging from 18% to 75% in 157,740 gross acres (50,370 net acres).

- Goodfare-Elmworth - 13 exploratory wells were drilled in this area, resulting in an additional 10 gas wells. The Company has interests ranging from 17% to 75% in 310,000 gross acres (126,500 net acres).

- Beaverlodge - three exploratory wells drilled in this area in 1979 resulted in three successful gas wells. Dome interests vary from 25% to 58% in 16,000 gross acres (5,820 net acres).

At Enchant-Little Bow, about 76 miles southeast of Calgary, the Company participated in the drilling of 15 exploratory wells, resulting in six gas and five oil discoveries. Dome has varying interests ranging up to 100% in 32,640 gross acres (11,990 net acres).




ALBERTA &
N.E. BRITISH COLUMBIA
DOME Working Interest Acreage
General Area of DOME Mineral Title Lands
1979 DOME EXPLORATORY &
DEVELOPMENT DRILLING
1 NO. OF OIL WELLS
1 NO. OF GAS WELLS
MILES
KILOMETRES
MAP AREA
Rand McNally & Company
NORTHWEST TERRITORIES
MARTIN CREEK
STODDART
WILDER
Ft. St. John
A L B E R T A
THUNDER
Grande Prairie
DEEP BASIN AREA
SEE INSERT
SASK.
NITON
HIGHVALE
Edmonton
LLOYDMINSTER AREA
See Map Page 8
PECO · HANLAN
WILLESDEN GREEN
BLACKSTONE
CASTOR · BROWNFIELD
BUFFALO COULEE · HOOSIER
Calgary
ENCHANT LITTLE BOW
Medicine Hat
U.S.A.
A GLACE
WEMBLEY
Grande Prairie
KAKWA
LATOR
WILDHAY
T.75
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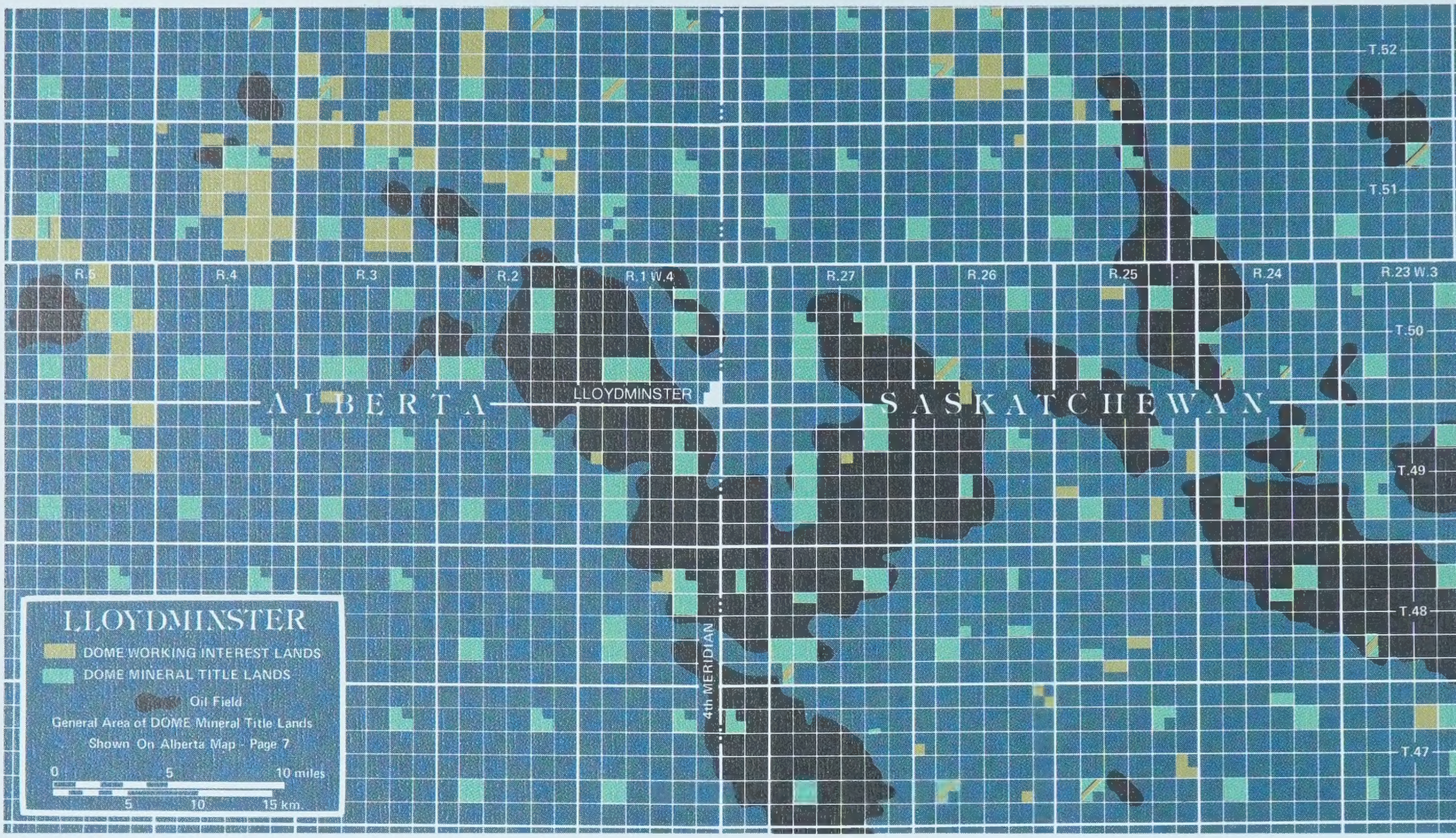
R.5
R.25 W5M
126 MILES




At Brazeau River, Peco and Hanlan areas approximately 90 miles southwest of Edmonton, the Company drilled a total of three gas wells. Dome has interests ranging up to 75% in 157,331 gross acres (75,617 net acres).

At Blackstone, the Company participated in the drilling of a major foothills gas discovery which is currently being followed up by development drilling. Dome has interests ranging up to 25% in 24,160 gross acres (4,349 net acres).

At Highvale, west of Edmonton, five exploratory wells were drilled resulting in two oil and three gas wells. The Company has interests ranging up to 75% in 67,631 gross acres (6,877 net acres).

At Thunder, in the British Columbia foothills, the Company participated in the drilling of a significant exploratory gas discovery. Dome has a 25% interest in 16,165 gross acres (4,041 net acres) in this area.

At Buffalo Coulee, Standard Hill, Tangleflags and Lone Rock-Dulwich areas of western Saskatchewan, the Company drilled a total of 32 exploratory wells resulting in 27 heavy oil wells. Dome has interests ranging up to 75% in 338,000 gross acres (167,300 net acres).

| LAND HOLDINGS SUMMARY * | 1979 | | | 1978 | | |
|---|---|---|---|---|---|---|
| | Working Interest | | | Working Interest | | |
| AREA | Gross Acres | Net Acres | Royalty Acres | Gross Acres | Net Acres | Royalty Acres |
| Alberta | 14,504,000 | 8,577,000 | 1,251,000 | 4,642,000 | 2,479,000 | 677,000 |
| British Columbia | 1,658,000 | 666,000 | 131,000 | 843,000 | 390,000 | 79,000 |
| Saskatchewan | 2,576,000 | 2,258,000 | 261,000 | 292,000 | 165,000 | 77,000 |
| Manitoba | 745,000 | 732,000 | — | 51,000 | 38,000 | — |
| Ontario | 73,000 | 29,000 | — | — | — | — |
| Hudson Bay | — | — | 1,960,000 | — | — | 1,960,000 |
| Arctic Islands | 20,432,000 | 12,948,000 | 19,690,000 | 21,630,000 | 10,880,000 | 16,467,000 |
| Beaufort Sea | 9,217,000 | 4,483,000 | 6,321,000 | 9,217,000 | 4,215,000 | 5,523,000 |
| Mackenzie Valley | 1,218,000 | 484,000 | 1,185,000 | 3,280,000 | 1,482,000 | 1,022,000 |
| Canadian East Coast | 8,717,000 | 1,820,000 | 830,000 | 988,000 | 988,000 | 959,000 |
| Alaska | 17,000 | 9,000 | — | 114,000 | 76,000 | — |
| Other United States | 1,596,000 | 740,000 | 6,000 | 1,093,000 | 522,000 | — |
| North Sea (UK) | — | — | 25,000 | — | — | 25,000 |
| Other Foreign | 6,185,000 | 3,160,000 | — | — | — | — |
| TOTAL | 66,938,000 | 35,906,000 | 31,660,000 | 42,150,000 | 21,235,000 | 26,789,000 |

* Excludes Dome's Interest in Kaiser - 3,567,000 Net Acres and 164,000 Royalty Acres.

*Typical Dome mineral title holdings throughout the Green areas shown on Alberta map -Page 7.*

*Dome's successful exploratory oil well in Garvin County, Oklahoma.*

## United States

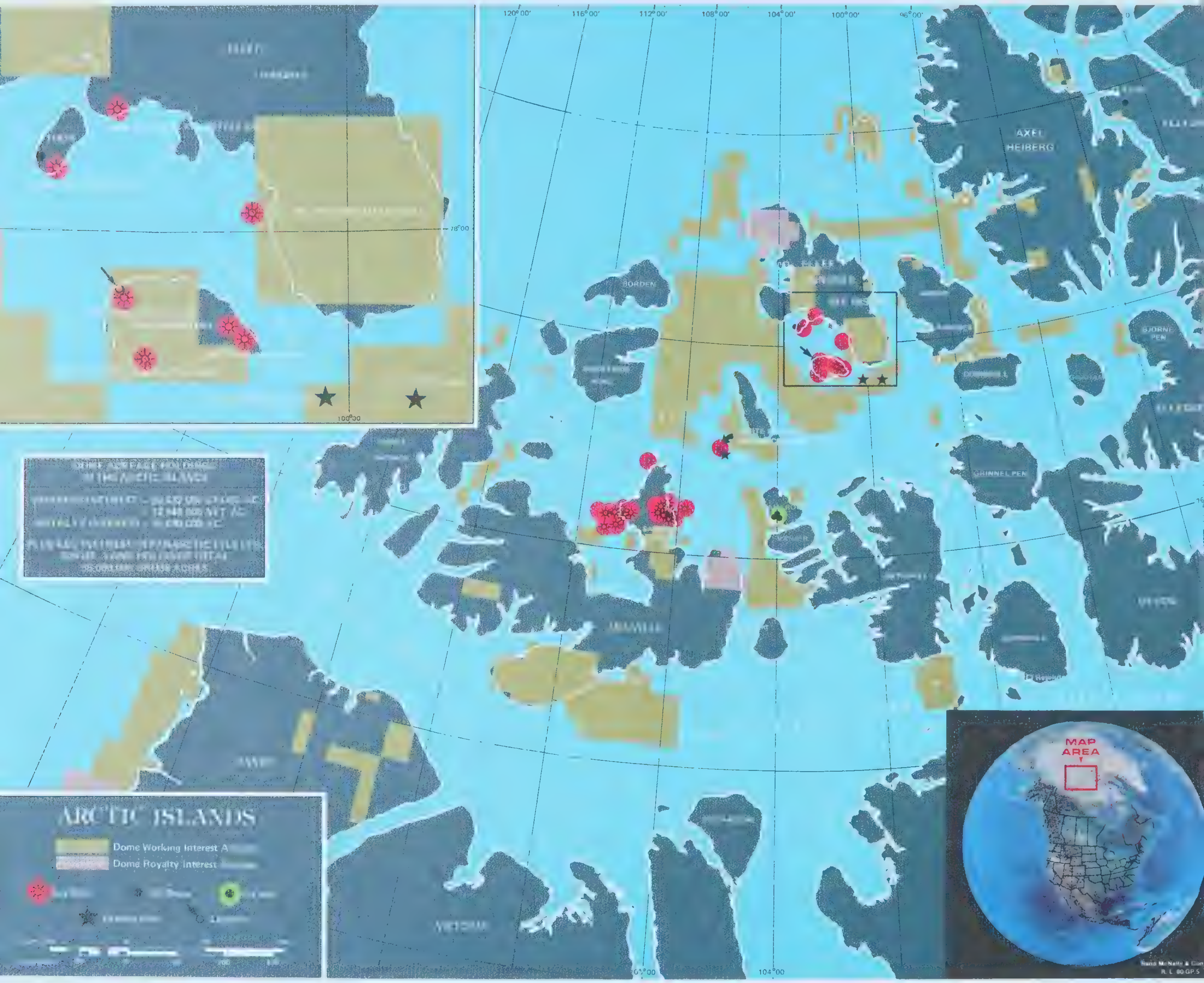
During 1979, the Company drilled 43 gross (22 net) exploratory wells resulting in nine oil discoveries and nine gas discoveries. Also, the Company drilled 88 gross (42 net) development wells resulting in 16 oil and 53 gas producing wells.

In Garvin County, Oklahoma, the Company drilled a successful oil discovery well which flow-tested at 210 BPD. Two successful follow-up development wells have been drilled with five more wells planned in the area. Dome owns 4,150 net acres out of 12,880 gross acres in this prospect area.

Dome holds a 25% working interest (12.5% after payout) in a gas discovery in Grayson County, Texas, which flow-tested at 15 million cubic feet per day (mmcf/d) and 816 BPD of condensate. The Company has interests in 3,200 gross acres (365 net acres) in the prospect area.

At Mondak, North Dakota, the Company participated in drilling one discovery and three development oil wells. Dome has interests varying from 25% to 100% in 1,210 gross acres (950 net acres).

At Powder River Basin, Wyoming, the Company drilled a successful oil discovery well which flow-tested at 400 BPD. Dome has a 50% interest in 480 gross acres (240 net acres) in this




*Right: Drilling from the ice at Whitefish H-63, location of Panarctic's significant 1979 gas discovery.*

*Centre: Drillship Explorer III drilling in the Beaufort Sea with temporary polar ice cover moving slowly over the drillsite.*

*Far Right: Oil and natural gas flaring during a production flow test at the Kopanoar M-13 well during the 1979 Beaufort Sea drilling season.*

area with plans to drill four development locations.

Dome's production in the United States in 1979 was 327,000 barrels of oil and one billion cubic feet of gas. The Company owns a working interest in 84 producing oil wells (29 net wells) and 102 producing gas wells (48 net wells) in Montana, North Dakota, Wyoming, Nebraska, Kansas, New Mexico, Oklahoma and Texas.

Dome land holdings in the United States at year-end amounted to 1,613,000 gross acres (749,000 net acres).

**Arctic Islands**

The Company holds an interest in 20,432,000 gross (12,948,000 net) working interest acres in this area in addition to its approximate 4.5% interest in Panarctic's 55 million gross acres.

Panarctic and the Arctic Islands Exploration Group announced in May what could be the most significant discovery in the Arctic Islands to date: Whitefish H-63, southwest of Lougheed Island within five miles of Dome interest acreage. This well flow-tested at a rate of 14.5 mmcf/d. A step-out well is currently drilling.

Dome has a number of comparable structures on adjoining permit blocks totalling in excess of five million acres.

Dome is participating in two offshore wells - Panarctic Dome Balaena and Panarctic Dome Char - to the southeast of King Christian Island. These wells are being drilled from ice platforms. Dome's interests consist of a 25% working interest, a 12½% preferred net carried interest and a 3% gross overriding royalty.

Panarctic, which is responsible for the drilling of these wells, has recently announced that the Char well has encountered natural gas which flowed at the rate of 8.2 mmcf/d. Drilling of this well is proceeding.

Indications of petroleum hydrocarbons have also been encountered in the Balaena well.

A step-out to the Company's 1974 discovery at Wallis on King Christian Island is planned for the coming year.

The Company is participating with other operators in various ice research projects in this area in anticipation of future offshore drilling.

**Beaufort Sea**

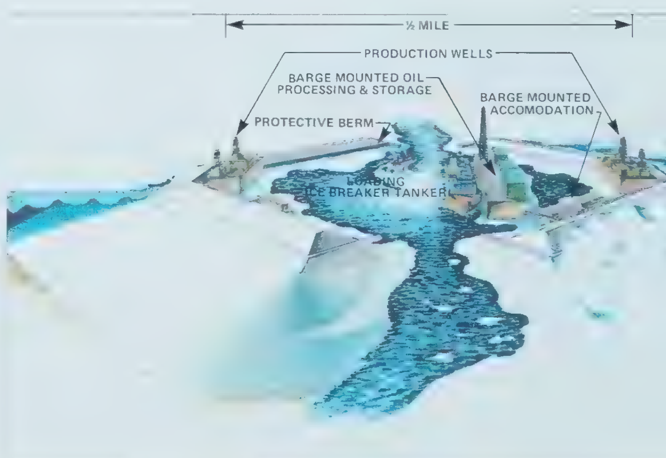
During the 1979 summer drilling season Dome participated with other companies in drilling and production testing operations on four locations in the Beaufort Sea. Oil and/or gas have been found in all wells carried to a significant depth to date.

The highlight of the 1979 season occurred on the Kopanoar M-13 well which had been drilled in previous


*Right: Icebreaker tankers would be loaded within this Arctic production and loading atoll, built from the sea floor in water depths up to 200 feet.*

*Centre: Canmar Kigoriak, Dome's new icebreaker, performed well in Beaufort Sea ice.*

*Far Right: Dome's four drillships moored at their McKinley Bay wintering location on the Tuktoyaktuk Peninsula.*



seasons to a depth of 14,174 feet. The estimated sustained production capacity of this well from four zones is in excess of 12,000 BPD.

The most significant aspect of the Kopanoar testing program was the confirmation of good to excellent reservoir formations and oil production rates which are considered to be commercial if sufficient reserves can be confirmed by delineation drilling.

An offset well, Kopanoar L-34, located 2½ miles from the discovery well, will be drilled in 1980.

The Nerlerk M-98 well was re-entered and drilled to total depth of 16,208 feet. Production tests of the lower zones were unsuccessful. Additional testing is scheduled.

The Tarsiut A-25 well was re-entered and drilled to a depth of 14,548 feet. Mechanical problems may prevent the complete testing of the well and it may be necessary to drill a substitute well.

The Ukalerk 2C-50 well, drilled in a prior season to a depth of 16,250 feet, was evaluated in 1979 and capped as a suspended gas well.

The Natsek E-56 well, near the Canada-Alaska border, was re-entered and drilled to 11,549 feet. The well was suspended but is scheduled for subsequent deepening and production testing.

The Kenalooak J-94 well was spudded and drilled to 7,054 feet. Intermediate casing was run and the well suspended for subsequent deepening and evaluation.

In addition, two wells, Kaglulik M-64 and Koakoak O-22, were spudded and had 30-inch conductor pipe set, in preparation for deeper drilling in 1980.

**Canadian Marine Drilling Ltd. (Canmar)**

Dome's contract drilling operations in the Beaufort Sea are conducted by a wholly owned subsidiary, Canmar, acting as agent for Dome.

The fourth season of exploratory drilling on the Company's permit acreage in the Beaufort Sea was the longest season yet experienced. The increase in season length and a 50% improvement in rig operating days resulted from technology advances and the addition of a fourth drillship, the Explorer 4, which arrived in the Beaufort Sea on August 7. This vessel is equipped with special features for operating in late season ice cover, including an air bubbler system which significantly reduces ice friction on the hull and an ice protected underhull mooring system.

Dome's new icebreaker, the Canmar Kigoriak, was launched in Saint John, New Brunswick and sailed via the Northwest Passage, arriving in the Beaufort Sea on September 27. A scaled-down model of the AML-10, the Kigoriak performed considerably better than anticipated, virtually undeterred by ice thicknesses ranging up to six feet. The first vessel to operate in the Arctic in winter, the Kigoriak conducted scientific tests that will eventually lead to the detailed design of icebreaker tankers capable of year-round Arctic operations.

The Aquarius, the largest dredger of its type in the world, was leased by Dome to construct during September and October a channel and mooring basin at McKinley Bay on the Tuktoyaktuk Peninsula. This project has demonstrated that an Arctic production and loading atoll could be built from granular material dredged from the sea bed.

Dome's ice-reinforced Beaufort Sea fleet and base facilities represent an investment of more than $300 million. The fleet consists of four drillships, eight supply vessels, three barges, a cargo carrier and the Kigoriak.

## DEVELOPMENT

Dome conducted an active development drilling program in 1979 resulting in an additional 131 gross oil wells (72 net wells) and 171 gross gas wells (53 net wells). (A development well is a well drilled for oil and gas within 1 ½ miles of a producing well for the purpose of completing a desired pattern of production.)

### Conventional Oil

At Enchant-Little Bow, about 76 miles southeast of Calgary, Dome participated in drilling five successful development oil wells during 1979. Additional delineation and development drilling is planned for 1980 (average 50% working interest).

At Stoddart, in Northeastern British Columbia, Dome participated in drilling four additional oil wells. Central production and gas conservation facilities are currently being installed to allow for solution gas sales in 1980 (average 35% working interest).

At Niton, 75 miles west of Edmonton, the Company drilled 18 development wells resulting in seven oil and 11 gas wells. Dome's interests vary up to 75% in 21,120 gross acres (15,216 net acres).

At Wembley, 60 miles west of Grande Prairie, Dome drilled 10 development wells resulting in seven oil and three gas wells. Dome has interests ranging up to 75% in 157,740 gross acres (79,343 net acres).

### Natural Gas

### Alberta

At Brazeau, about 96 miles southwest of Edmonton, construction of gathering and processing facilities was commenced in 1979 and completed during the first quarter of 1980. Three successful development wells were drilled in 1979 and one more is planned in early 1980 (average 52% working interest).

At Castor-Brownfield, about 84 miles east of Red Deer, five successful gas wells were drilled in 1979 (average 80% working interest).

At Elmworth, 48 miles west of Grande Prairie, Dome participated in 16 gas development wells in 1979, of which all but two were successful. In addition, Dome's Goodfare gas plant came on stream November 1 with a capacity of 40 mmcf/d (average 58% working interest).

At Valhalla, also in the Elmworth area of Northwestern Alberta, construction commenced on a 30 mmcf/d gas plant. This plant is planned to go on stream in the second quarter of 1980 (average 36% working interest).

At Vulcan, about 72 miles southeast of Calgary, Dome participated in five gas development wells of which four were successful (average 40% working interest).

At Chinchaga, in Northwestern Alberta, construction started on a 45 mmcf/d gas plant. This plant is expected to be on stream in the second quarter of 1980 (average 25% working interest).

### British Columbia

At Martin Creek, Dome drilled three successful wells and acquired additional acreage during 1979. The Company now has varied interests averaging 54% in 9,600 acres and four gas wells in this area.

In the Monias Field, Dome participated in two successful gas wells that extended the gas reservoir to the north. The Company plans to continue drilling on its working interest lands at the north end of the Monias Field during 1980. Dome has varied interests averaging 26% in 15,000 acres and six gas wells in this area.

In the Wilder area, east of the Monias Field, Dome has an interest in two successful gas wells drilled during 1979 on a 5,000 acre block of land in which Dome has interests averaging 36%.

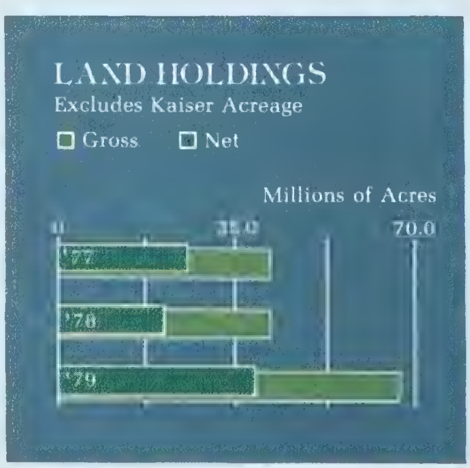
### Heavy Oil

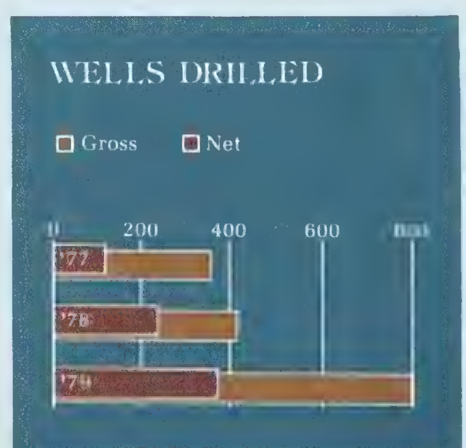
A total of 68 exploratory and development wells were drilled in various heavy oil areas of Alberta and Saskatchewan. Fifty-four wells were completed.

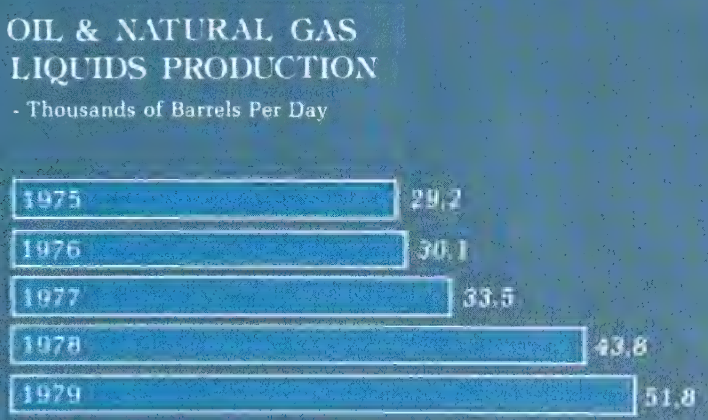
Current land holdings in these heavy oil areas total 400,000 gross acres (300,000 net acres).

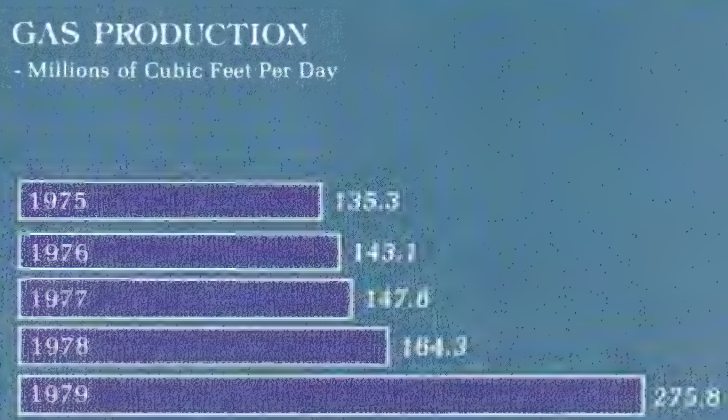
### Alsands Project

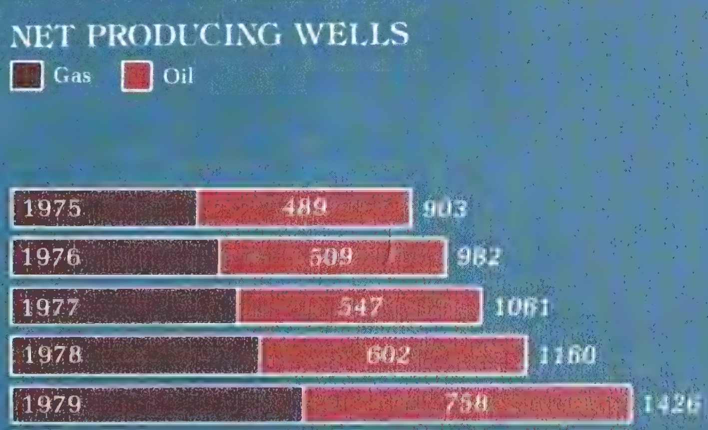
Dome holds a four percent participation in the Alsands consortium, led by Shell Canada Resources. This Tar Sands mine and upgrading facility in the northeastern part of the Athabasca area is scheduled to start up in 1987 and achieve a production level of 140,000 BPD.

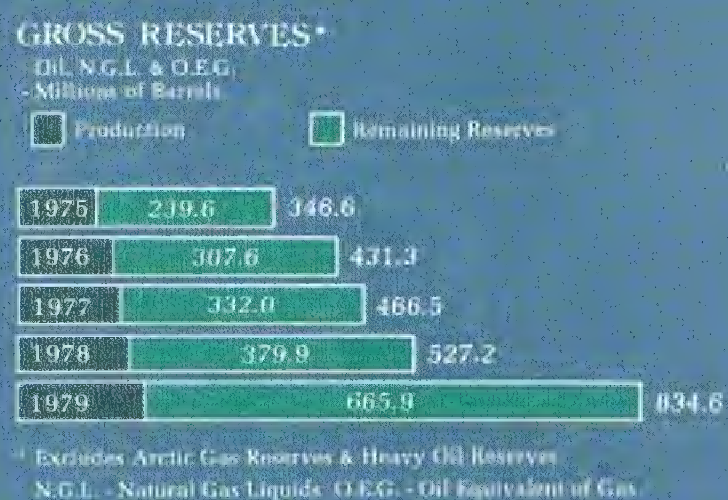





# OPERATIONS REVIEW

## PRODUCTION AND RESERVES

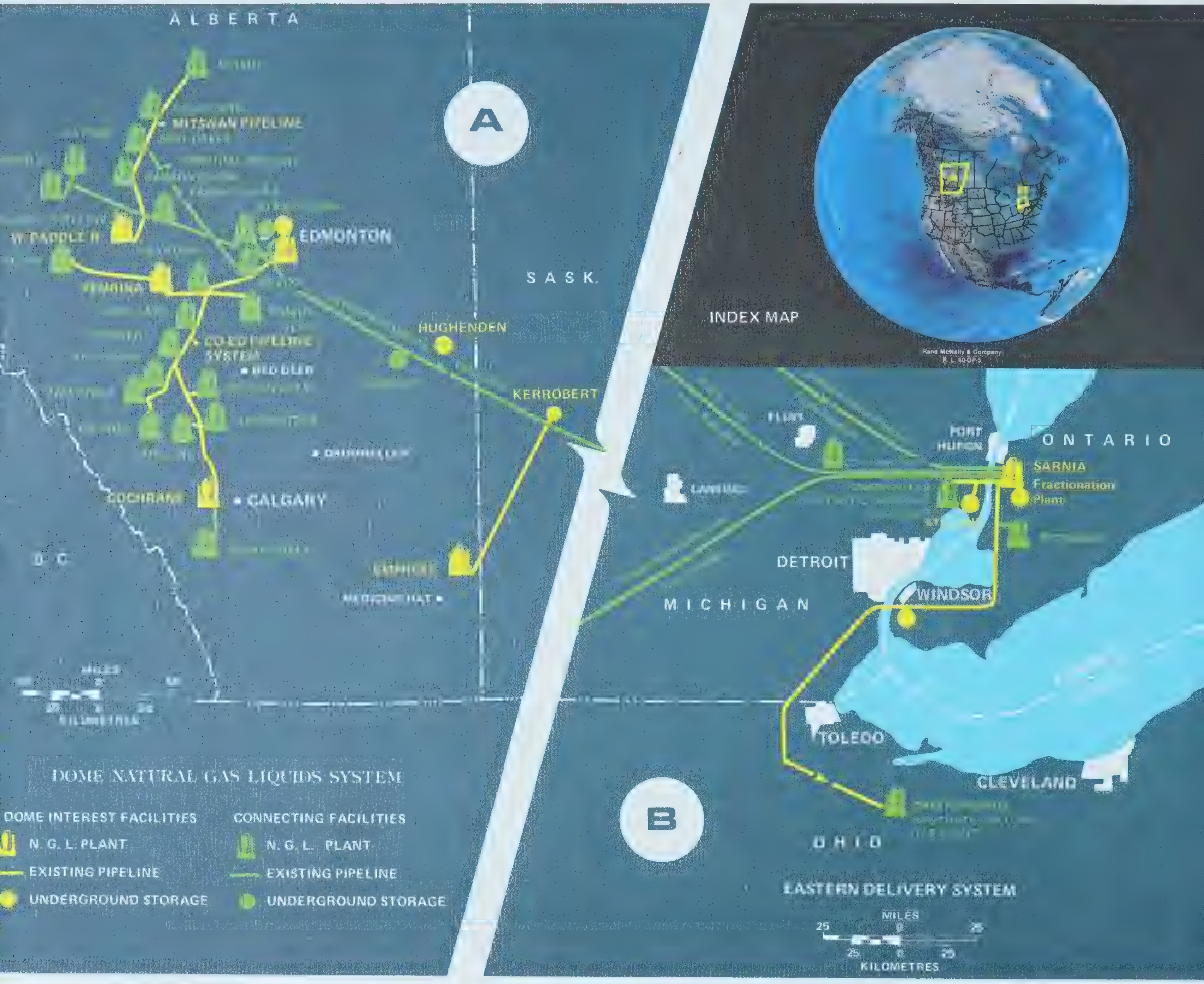
Production of crude oil and natural gas liquids in 1979 was 18,907,790 barrels (51,802 barrels per day), compared to 16,003,790 barrels (43,846 barrels per day) in 1978.

Natural gas production in 1979 amounted to 100.6 billion cubic feet (275.8 million cubic feet per day), compared to 60 billion cubic feet (164.3 million cubic feet per day) produced in 1978.

After deducting 1979 production of 21,382,430 barrels of oil, natural gas liquids and oil equivalent of gas, recoverable reserves at year-end amounted to 665,867,000 barrels of crude oil, natural gas liquids and oil equivalent of gas.

Excluded from these reserve totals are substantial gas reserves in the Arctic Islands and major heavy crude oil reserves in Canada. No allowance has been made for oil and/or gas discoveries in the Beaufort Sea. All reserve figures are stated as gross since it is not practical to project full-life royalty rates, given the numerous and variable factors prevailing in the various jurisdictions.

At December 31, 1979, 435,760 gross acres (127,804 net acres) were under oil production and 1,496,795 gross acres (667,648 net acres) were under natural gas production.




*Right: Drilling rig (in foreground) drills an underground storage cavern in a salt layer 6,400 feet below the surface. Located near Edmonton, Alberta, the completed cavern stores ethane for subsequent shipment through the Cochin pipeline.*

*Centre: Spherical storage tanks for natural gas liquids at Edmonton, Alberta, for injection into the Interprovincial pipeline and subsequent delivery to Dome's fractionation plant at Sarnia, Ontario.*

*Far Right: Dome's processing plant at Empress, in Southeastern Alberta, where natural gas liquids and ethane are extracted. Part of the ethane is used as feedstock for a major ethylene plant in Central Alberta and the remainder is injected with other NGL's into the Cochin pipeline.*

## NATURAL GAS LIQUIDS OPERATIONS

Dome is the largest natural gas liquids (NGL) producer and marketer in Canada. The Company's NGL operations include the large integrated Natural Gas Liquids System, the Ethane Project and the Cochin Pipeline System. Dome's daily average sales of NGL increased from 90,078 barrels in 1978 to 101,200 barrels in 1979.

### NGL System

Dome is the operator and owns varying interests, averaging approximately 50%, in an extensive integrated natural gas liquids processing, transportation, storage and marketing system extending from Alberta to Eastern Canada and the Eastern United States.

Dome's NGL production is primarily derived from plants at Edmonton and Empress in Alberta, in which Dome has a 50% interest, and from a plant at Cochrane, Alberta where Dome has a 50% interest in the NGL production. These plants are located on major natural gas transmission pipeline systems and extract NGL from natural gas under long term contracts.

Dome transports its production of NGL, together with NGL acquired from other connected plants, through interconnecting pipelines into storage facilities at Edmonton, Alberta, and at Kerrobert, Saskatchewan. From Edmonton and Kerrobert, these NGL are shipped through Interprovincial Pipe Line to fractionation and storage facilities at Sarnia, Ontario, where liquids are separated into propane, butane, isobutane and condensate. These NGL products are marketed in Eastern Canada and in the United States.

Late in 1979, the Company commenced construction of a major expansion to the Sarnia fractionation plant. Scheduled for completion in September 1980, the 30,000 BPD expansion will handle NGL from the Kalkaska area of Northern Michigan and will make the Sarnia Plant one of the largest fractionation plants in North America.

### Ethane Project and Cochin Pipeline System

Dome is the operator and an approximate one-third participant in an Alberta ethane gathering system and a light hydrocarbon products pipeline system to Eastern Canada and the United States. These facilities form an integral part of a $1.5 billion world-scale petrochemical project implemented by a consortium of Alberta Gas Trunk Line Company, Dow Chemical of Canada and Dome.


*Right: The Dome-operated ethane extraction plant at Edmonton, Alberta, supplies ethane feedstock to a major ethylene plant in Central Alberta and ethane for the Cochin Pipeline System.*

*Centre: Cochin Control Centre in Calgary, controlling the most highly automated products pipeline in the world.*

*Far Right: Dome's fractionation plant at Sarnia, Ontario, where natural gas liquids are separated into propane, butane and condensate.*


The integrated project is now running at essentially full capacity and consists of:

- five plants which extract ethane from natural gas streams in Alberta (Dome's interest is 50% in a plant at Edmonton and 38% in a second plant at Empress)
- a 530-mile ethane gathering system in Alberta (Dome's interest is 33⅓%) transporting ethane to a pipeline terminus near Edmonton and to Alberta Gas Trunk Line's world-scale ethylene plant in Central Alberta
- the upgrading of ethane into ethylene, the major petrochemical building block from which a host of plastic products can be manufactured (Dome has no participation in this plant)
- the 1,900 mile Cochin Pipeline System (Dome is operator and holds a 32½% interest) transporting ethane and ethylene, surplus to Alberta's requirements, to Eastern Canadian and United States markets. Propane is also shipped through this pipeline to propane distribution terminals in the U.S. Midwest.


## RECENT ACQUISITIONS

### TRANSCANADA PIPELINES LIMITED

In May 1979, Dome acquired additional common shares of TransCanada PipeLines, increasing Dome's interest in TransCanada to approximately 49%. Three senior officers of Dome serve on TransCanada's board of directors. John Beddome, a senior vice-president of Dome, was appointed chairman of the board of TransCanada in November 1979.

Regulated by the National Energy Board, TransCanada PipeLines is the only transmission system linking Western Canadian natural gas reserves to Eastern Canadian and United States markets. It owns approximately 5,800 miles of pipelines, carrying three billion cubic feet per day of natural gas.

TransCanada PipeLines' financial highlights for 1979 included operating revenues of $2.58 billion and net income applicable to common shares of $87.2 million or $2.16 per share.

TransCanada has recently entered into an agreement to participate to the extent of a 30% share in the $1.5 billion Northern Border pipeline. This pipeline is planned to be built from Alberta to the U.S. Midwest and is scheduled to be completed by late 1981.

In December 1979, TransCanada acquired from Dow Chemical of Canada a 50% interest in its oil and gas rights in Canada. These oil and gas rights had been originally acquired as a result of a joint exploration program with Dome and are currently being operated by Dome.

## DOME MINES LIMITED

As a result of the acquisition in May 1979, of an additional 8.5% of the common shares of Dome Mines, the Company now owns approximately 39.5% of the outstanding common shares and is Dome Mines' principal shareholder.

Dome Mines, in turn, owns approximately 25% of the outstanding common shares of Dome Petroleum and is its principal shareholder.

Dome Mines owns and operates a gold mine in the Porcupine district of Ontario and owns controlling interests in two other major gold producers: Campbell Red Lake Mines (57%) and Sigma Mines (Quebec) (63%). Dome Mines and its subsidiaries constitute the largest gold producer in the Western Hemisphere. Dome Mines also owns a 10% interest in Denison Mines, a major uranium producer, and a 20% interest in Canada Tungsten Mining.

Dome Mines' financial highlights for 1979 showed bullion revenues of $129.7 million and a net income of $89.3 million or $5.10 per share.

On February 15, 1980, Dome Mines announced plans to proceed with a 50% expansion of its gold mining operations at South Porcupine at a cost of approximately $50 million. The expansion is scheduled for completion in 1984.

Campbell Red Lake Mines and Dome Mines have entered into a joint venture agreement with Amoco Canada whereby Dome Mines and Campbell each have the right to earn a 25% interest in a claim group in the Detour Lake area, about 100 miles northeast of Timmins, Ontario, on which significant gold bearing structures have been discovered. Extensive delineation work will be conducted in 1980.

*Left: TransCanada PipeLines personnel carry out a routine maintenance program on engine units at North Bay, Ontario, compressor station.*

*Far Left: An umbrella provides welcome shade for welders on a mid-summer pipeline project in Northern Ontario.*

*Below: Pouring semi-refined gold bullion into bars for shipment to the Canadian Mint.*

*Lower Left: Campbell Red Lake Mines, Balmertown, Northwestern Ontario, currently produces 825 tons of ore per day.*

# FINANCIAL REVIEW

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE COMPANY'S FINANCIAL STATEMENTS FOR 1979 AND 1978

Continued growth of the Company resulting from the large capital expenditure programs of the last several years is reflected in the increased revenues for 1979. Revenue increased 51% from $627,320,000 in 1978 to $945,466,000 in 1979, and is a result of higher production and sales volumes and higher product prices. The Alberta Ethane Gathering System and Cochin Pipeline were in full operation during 1979, thus contributing revenues through sales of ethane and pipeline revenues.

Cost of product in 1979 amounted to $328,118,000, an increase of 12%, the result of higher product prices and processing costs.

Operating and general expenses increased to $184,763,000 from $94,124,000 in 1978, the result of increased operations within the Company.

Interest expense on long term debt for 1979 was $103,675,000 after capitalizing $29,906,000 of interest related to capital projects. In 1978, interest on long term debt amounted to $43,609,000 after $12,577,000 was capitalized.

Depreciation expense amounted to $34,015,000 in 1979. The increase over 1978 was the result of the Cochin pipeline operating for a full year and increased oil and gas production.

Depletion increased from $7,268,000 in 1978 to $28,933,000 in 1979 due to a large exploration and development program, acquisition of Siebens and Mesa oil and gas properties and increased production of oil and gas.

Preferred share dividends of a subsidiary represent dividends paid by the subsidiary for a full year in 1979 versus only part of the year in 1978.

Income before deferred income taxes including equity in earnings of affiliated companies amounted to $277,591,000, an increase of 61%.

The provision for deferred income taxes was $95,880,000 in 1979, compared to $47,467,000 in 1978. The increase in the effective tax rate resulted from a lesser amount of frontier exploration allowance earned by the Company in 1979.

Net income for the year ended December 31, 1979 was $181,711,000 ($3.90 per common share) as compared to $125,132,000 ($2.79 per common share) in 1978. The increase in cash flow resulted from the overall growth of the Company and its investments. Additional funds were provided by issuance of preferred shares and long term debt.

The funds were used for: capital expenditures totalling $1,003,798,000 including the acquisition of oil and gas properties previously held by Siebens Oil & Gas Ltd. and Mesa Petroleum Company; further investments in TransCanada PipeLines Limited and Dome Mines Limited in the amounts of $246,660,000 and $65,804,000 respectively; reduction of $89,615,000 in long term debt; other investments and assets and preferred share dividends of $34,274,000.

Working Capital at the end of 1979 increased by $22,768,000 over the previous year to $112,985,000.

# AUDITORS' REPORT

*To the Shareholders of Dome Petroleum Limited*

*We have examined the consolidated balance sheet of Dome Petroleum Limited as at December 31, 1979 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. For Dome Petroleum Limited and for those other companies of which we are the auditors and which are consolidated or are accounted for by the equity method in these financial statements, our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. For TransCanada PipeLines Limited which is accounted for by the equity method we have relied on the report of its auditors who have examined those financial statements.*

*In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a consistent basis with that of the preceding year.*

*Calgary, Canada*
*March 10, 1980*

*Clarkson Gordon*
*Chartered Accountants*

# CONSOLIDATED STATEMENT OF INCOME

YEAR ENDED DECEMBER 31, 1979

| | 1979 ($000) | 1978 ($000) |
|---|---|---|
| REVENUE | $945,466 | $627,320 |
| EXPENSE: | | |
| Cost of product | 328,118 | 292,117 |
| Operating and general | 184,763 | 94,124 |
| Interest on long term debt | 103,675 | 43,609 |
| Depreciation | 34,015 | 23,750 |
| Depletion | 28,933 | 7,268 |
| Other interest | 7,621 | 2,905 |
| Preferred share dividends of a subsidiary | 22,871 | 2,147 |
| | 709,996 | 465,920 |
| INCOME BEFORE DEFERRED INCOME TAXES | 235,470 | 161,400 |
| Deferred income taxes (Note 10) | 95,880 | 47,467 |
| | 139,590 | 113,933 |
| EQUITY IN EARNINGS OF AFFILIATED COMPANIES | 42,121 | 11,199 |
| NET INCOME | $181,711 | $125,132 |
| PER COMMON SHARE (Note 9) | | |
| Net income before deferred income taxes | $6.04 | $3.85 |
| Net income | $3.90 | $2.79 |

# CONSOLIDATED STATEMENT OF RETAINED EARNINGS

YEAR ENDED DECEMBER 31, 1979

| | 1979 ($000) | 1978 ($000) |
|---|---|---|
| RETAINED EARNINGS, BEGINNING OF YEAR | $421,292 | $296,160 |
| Net income for the year | 181,711 | 125,132 |
| | 603,003 | 421,292 |
| Preferred share dividends - stock | 1,062 | — |
| - cash | 6,817 | — |
| RETAINED EARNINGS, END OF YEAR | $595,124 | $421,292 |

*See accompanying summary of significant accounting policies and notes.*

# CONSOLIDATED BALANCE SHEET

DECEMBER 31, 1979

## ASSETS

| | 1979 ($000) | 1978 ($000) |
|---|---|---|
| CURRENT: | | |
| Cash and short term deposits | $ 54,990 | $ 50,915 |
| Accounts receivable | 315,645 | 203,954 |
| Inventories - product | 70,492 | 54,926 |
| - materials and supplies | 52,176 | 28,922 |
| | 493,303 | 338,717 |
| INVESTMENTS: | | |
| Dome Mines Limited (Market value 1979 - $457,737,000; 1978 - $184,611,000) (Note 1) | 163,087 | 89,808 |
| Less Dome Petroleum's pro rata interest in its shares held by Dome Mines Limited | 75,922 | 40,693 |
| | 87,165 | 49,115 |
| TransCanada PipeLines Limited (Market value 1979 - $500,237,000; 1978 - $156,726,000) (Note 2) | 423,645 | 165,368 |
| Panarctic Oils Ltd. | 9,903 | 9,903 |
| Other | 16,622 | 4,702 |
| | 537,335 | 229,088 |
| PROPERTY, PLANT AND EQUIPMENT (Note 3) | 2,070,725 | 1,130,910 |
| OTHER ASSETS (Note 7) | 29,130 | 14,655 |
| | $3,130,493 | $1,713,370 |

## LIABILITIES AND SHAREHOLDERS' EQUITY

| | 1979 ($000) | 1978 ($000) |
|---|---|---|
| CURRENT: | | |
| Bank loans | $ 6,541 | $ 33,743 |
| Accounts payable | 343,152 | 192,759 |
| Long term debt due within one year | 30,625 | 21,998 |
| | 380,318 | 248,500 |
| LONG TERM DEBT (Note 4) | 1,332,161 | 577,122 |
| DEFERRED INCOME TAXES | 309,037 | 208,885 |
| PREFERRED SHARES issued by a subsidiary (Note 5) | 220,000 | 220,000 |
| PREFERRED SHARES (Note 6) | 285,628 | — |
| COMMON SHARES (Note 7) | 84,147 | 78,264 |
| RETAINED EARNINGS | 595,124 | 421,292 |
| DOME PETROLEUM'S PRO RATA INTEREST in its shares held by Dome Mines Limited (Note 1) | (75,922) | (40,693) |
| | $3,130,493 | $1,713,370 |

On behalf of the Board:

Director. Director.

*See accompanying summary of significant accounting policies and notes.*

# CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED DECEMBER 31, 1979

| | 1979 ($000) | 1978 ($000) |
|---|---|---|
| **FUNDS WERE PROVIDED BY:** | | |
| Operations - | | |
| Net income | $ 181,711 | $ 125,132 |
| Add charges not requiring an outlay of funds including depreciation, depletion and deferred income taxes | 160,861 | 80,273 |
| Less equity in earnings of affiliates net of dividends received of $22,944,000 in 1979 and $4,535,000 in 1978 | (19,177) | (6,664) |
| Cash flow from operations | 323,395 | 198,741 |
| Issue of preferred shares | 285,628 | — |
| Issue of preferred shares by a subsidiary (Note 5) | — | 220,000 |
| Issue of long term debt | 844,655 | 127,310 |
| Issue of common shares | 5,883 | 3,246 |
| Other | 3,358 | — |
| Decrease in working capital | — | 11,484 |
| | $1,462,919 | $ 560,781 |
| **FUNDS WERE USED FOR:** | | |
| Expenditures for property, plant and equipment | $ 859,735 | $ 385,774 |
| Acquisitions (Note 12) | 310,964 | — |
| Less amounts contributed through participation agreements (Note 8) | (166,901) | (73,803) |
| | 1,003,798 | 311,971 |
| Reduction of long term debt | 89,615 | 70,654 |
| Investment in TransCanada PipeLines Limited | 246,660 | 164,445 |
| Investment in Dome Mines Limited | 65,804 | 7,158 |
| Investment in Panarctic Oils Ltd. | — | 1,027 |
| Increase in other investments and other assets | 26,395 | 5,526 |
| Preferred share dividends | 7,879 | — |
| Increase in working capital | 22,768 | — |
| | $1,462,919 | $ 560,781 |

*See accompanying summary of significant accounting policies and notes.*

# SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DECEMBER 31, 1979

## PRINCIPLES OF CONSOLIDATION

The consolidated financial statements are prepared in accordance with generally accepted accounting principles in Canada and include the accounts of Dome Petroleum Limited and its subsidiary companies. The excess of the consideration paid for the shares of subsidiaries over their net book values at dates of acquisition has been attributed to the related property, plant and equipment.

## FOREIGN CURRENCY TRANSLATION

Current assets and current liabilities are translated at the rate of exchange prevailing at the balance sheet date. Long term assets and liabilities are translated at rates in effect at the dates the assets were acquired or obligations incurred. Revenue and expense items are translated at average rates during the year with the exception of depletion and depreciation which are at the rates of exchange used for translation of the related assets. The resulting gains and losses are included in income.

## INVENTORY VALUATIONS

Inventories of product are valued at the lower of average cost and net realizable value. Materials and supplies are valued at average cost.

## INVESTMENTS

The Company's investments in Dome Mines Limited and TransCanada PipeLines Limited are accounted for by the equity method. Under this method the investments are carried at cost plus the related equity in undistributed earnings less the amortization of the excess of the purchase price over the net book value at dates of acquisition. The Company's 4.07% interest in Panarctic Oils Ltd. is carried at cost.

## PROPERTY, PLANT AND EQUIPMENT

The Company follows the full-cost method of accounting for oil and gas operations whereby all costs of exploring for and developing oil and gas and related reserves are capitalized. Such costs include land acquisition costs, geological and geophysical expense, interest and other carrying charges of non-producing property, costs of drilling both productive and non-productive wells and overhead expense related to exploration activities. The Company's share of costs incurred in drilling in the Beaufort Sea includes depreciation of drillships and related facilities, interest and operating expenses.

## DEPRECIATION AND DEPLETION

The provisions for depreciation and depletion are computed on the composite unit-of-production method based on estimated proven reserves of oil and gas as determined by Company engineers. In the calculation, natural gas reserves and production are converted to equivalent barrels of crude oil based on the relative net sales value of each product.

The Beaufort Sea, Arctic and costs of certain undeveloped properties amounting to $253,800,000 are excluded from the depletion calculation until the quantities of proved reserves can be ascertained through further exploration.

Plants, pipelines and related facilities, and drillships and supply vessels are depreciated on the straight-line basis at rates designed to amortize the assets over their estimated useful lives.

## CAPITALIZED INTEREST

The Company follows the policy of capitalizing interest where the related financing can be identified with the purchase or construction of property, plant and equipment including the purchase of mineral rights. Once the facility commences operations or the exploration stage is complete, subsequent interest costs are charged to income.

## INCOME TAXES

The Company follows the tax allocation method of accounting under which the income tax provision is based on the income reported in the accounts. Under this method, the Company makes full provision for income taxes deferred as a result of claiming capital cost allowance and exploration and development costs in excess of depreciation and depletion provided in the accounts.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1979

## 1. INVESTMENT IN DOME MINES LIMITED

During the year, the Company acquired 1,641,546 common shares of Dome Mines Limited for a consideration of $65,804,000, increasing the Company's holdings to 7,628,946 common shares, representing a 39.5% interest in Dome Mines Limited.

Dome Mines Limited owns 25.6% of the outstanding common shares of the Company resulting in the Company having a pro rata interest of 10.1% in its own shares. The investment in Dome Mines Limited and shareholders' equity have therefore been reduced by the allocated portion of the cost of the investment in shares of Dome Mines Limited related thereto. The excess of the purchase price of the book values of Dome Mines Limited, other than its holdings in Dome Petroleum Limited, amounts to $51,753,000 and is attributable to the value of the mineral reserves held by Dome Mines Limited. This excess is being amortized over the expected life of the mineral assets.

## 2. INVESTMENT IN TRANSCANADA PIPELINES LIMITED

During 1979, the Company acquired 10,693,550 common shares of TransCanada PipeLines Limited for a consideration of $246,660,000, increasing the Company's holdings to 19,713,771 common shares, representing a 48.6% interest in TransCanada PipeLines Limited.

The excess of the purchase price over the net book value of TransCanada PipeLines Limited amounts to $133,644,000 which is attributable to the value of the pipelines owned by TransCanada PipeLines Limited. This excess is being amortized over the remaining life of these assets.

## 3. PROPERTY, PLANT AND EQUIPMENT

| | Investment at Cost | Accumulated Depreciation and Depletion | Net Investment 1979 | Net Investment 1978 |
|---|---|---|---|---|
| | ($000's) | | (In thousands of dollars) | |
| Plants, pipelines and related facilities | $ 381,530 | $ 71,765 | $ 309,765 | $ 282,640 |
| Oil and gas properties | 1,426,245 | 81,725 | 1,344,520 | 541,958 |
| Production facilities | 190,453 | 24,223 | 166,230 | 117,790 |
| Drillships and supply vessels | 302,642 | 52,432 | 250,210 | 188,522 |
| | $2,300,870 | $ 230,145 | $2,070,725 | $1,130,910 |

Interest of $29,906,000 (1978 - $12,577,000) related to the financing of these assets has been capitalized during the year.

## 4. LONG TERM DEBT

| | 1979 | 1978 |
|---|---|---|
| | (In thousands of dollars) | |
| 10% Debentures due 1994 (U.S. $50,000,000) | $ 57,278 | $ — |
| 9½% Series A Debentures due 1997 (U.S. $150,000,000) | 158,811 | 158,811 |
| 7% Serial bonds due 1984 (U.S. $4,647,000) | 5,013 | 5,859 |
| Term bank loans, with interest varying from ¼% to 1¼% in excess of the prevailing prime bank rate | | |
| In Canadian funds, due 1986 - 1989 | 565,256 | 284,100 |
| In U.S. funds, due 1981 (U.S. $53,500,000) | 52,109 | 52,109 |
| Promissory notes | | |
| With interest at prime between 8¼% and 10¼% per annum adjusted for one-half the differential in prime below or above these limits, due 1989 | 28,500 | — |
| With interest at varying rates from 6% to prime plus 1¼%: | | |
| Due 1988 ($161,600,000 less funds on deposit of $123,315,000) | 38,285 | — |
| Due 1998 | 229,750 | — |
| Income debenture, with interest at 52% of the prevailing prime bank rate plus ¾% due 1988 ($200,000,000 less funds on deposit in 1978 of $119,000,000) | 200,000 | 81,000 |
| Other (including capitalized lease and royalty obligations) | 27,784 | 17,241 |
| | 1,362,786 | 599,120 |
| Less amounts due within one year | 30,625 | 21,998 |
| | $1,332,161 | $ 577,122 |

The 10% Debentures are subject to annual sinking fund payments in the amount of U.S. $2,750,000 on July 15 in each of the years 1984 through 1993. The debentures were issued at a discount of $852,000 which is being amortized over the life of the debentures.

The 9½% Series A Debentures are secured by a first fixed mortgage and charge upon certain of the Company's oil and gas properties, related production equipment and sales agreements. The Trust Deed securing the debentures requires annual redemption of Series A Debentures at varying amounts in each of the years 1983 to 1996.

As security for the income debenture and term bank loans, the Company has issued collateral demand debentures which include floating charges on property, plants and equipment; has pledged certain oil and gas properties and product inventories; has assigned certain amounts due under marketing agreements and has hypothecated shares of TransCanada PipeLines Limited and Dome Mines Limited. At December 31, 1979, the Company had an unused line of credit of $183,000,000 under these specific bank arrangements.

As security for the promissory notes, the Company has pledged certain oil and gas properties which are subject to a first fixed charge and has placed in escrow with a Canadian chartered bank $123,315,000 in cash. The monies held in escrow earn interest and will be released in proportion to the principal repayment of the promissory notes. Such notes are repayable in annual instalments of $7,650,000 (1980 - 1981), $43,650,000 (1982 - 1987), $94,650,000 (1988), $6,150,000 (1989), and $4,650,000 (1990 - 1998).

Under the provisions of the income debenture, the Company is required to make principal repayments of varying amounts in each of the years 1984 to 1988.

Expenses incurred in the issue of long term debt are deferred and amortized over the term of the loan.

Long term debt repayable in United States currency has been translated at the rates of exchange in effect at the dates the obligations were incurred. United States accounting practice requires that long term debt payable in foreign funds be translated at exchange rates in effect at the end of the year and the unrealized exchange gain or loss included in income currently. If the Company had followed this practice, long term debt would have been increased by $27,586,000 at December 31, 1979 (1978 - $31,296,000) and net income would have been increased by $3,555,000 ($0.08 per share) in 1979 and reduced by $19,410,000 ($0.43 per share) in 1978.

Approximate instalments of long term debt (including sinking fund repayments) due in each of the years 1981 to 1984 are: 1981 - $84,171,991; 1982 - $71,112,522; 1983 - $77,844,700; and 1984 - $114,108,669.

## 5. PREFERRED SHARES ISSUED BY A SUBSIDIARY

A subsidiary of the Company has outstanding 2,200,000 cumulative, non-voting, first preference shares redeemable in 1988. The redemption is guaranteed by the Company. The dividend rate is 52% of the prevailing prime bank rate plus ¾%. At the Company's option, shares may be converted to a term bank loan and after June 1, 1981 may be redeemed.

## 6. PREFERRED SHARES

The Articles of Continuance of the Company as approved by the shareholders on May 7, 1979 authorized the creation of a class of preferred shares unlimited in number and issuable in series.

Preferred shares issued during 1979:

| | Authorized | Issued | Amount (In thousands of dollars) |
|---|---|---|---|
| 7.76% Series A and B | 10,500,000 | 5,000,000 | $125,000 |
| Stock dividends | — | 48,112 | 1,062 |
| | 10,500,000 | 5,048,112 | 126,062 |
| 6.98% Series C | 1,450,000 | 1,450,000 | 36,250 |
| 7¼% Series D | 4,110,517 | 4,110,517 | 61,658 |
| 7% Series E | 4,110,516 | 4,110,516 | 61,658 |
| | | 14,719,145 | $285,628 |

Series A Cumulative Preferred Shares and Series B Cumulative Stock Dividend Preferred Shares were issued at $25 per share and are interconvertible at any time on a share for share basis at the option of the holder. The shares are redeemable after August 31, 1984 at $26 per share to August 31, 1985, declining thereafter by 20¢ per share annually to $25 after August 31, 1989. The Company is required to use all reasonable efforts to purchase in the market each year, commencing in 1980, a total of 4% of the Series A and Series B Preferred Shares outstanding at the beginning of each year provided such shares are available at prices not exceeding $25 per share plus costs of purchase.

Series C Cumulative Preferred Shares were issued at $25 per share with redemption of 5% per annum of the issued shares beginning in 1985 at $25. Each holder has the right to waive this redemption obligation of the Company in any year. The dividend rate will be adjusted in 1984 and each five years thereafter, based on the five-year term deposit rates of certain financial institutions.

Series D Cumulative Preferred Shares were issued at $15 per share and are redeemable beginning in 1991. The holder has the right to require redemption at $15 in 1984 and each fifth year thereafter.

Series E Cumulative Preferred Shares were issued at $15 per share and are redeemable beginning in 1988. The holder has the right to require redemption at $15 in 1982 and each third year thereafter.

## 7. COMMON SHARES

Authorized:

100,000,000 common shares of no par value

Issued:

49,252,270 common shares (1978 - 48,921,168, restated for four for one split)

By a Certificate of Continuance dated October 15, 1979, the Company was continued under the Canada Business Corporations Act.

During the year, each common share of the Company was subdivided into four shares and subsequently the authorized number of common shares was increased to 100,000,000. Common shares issued during the years ended December 31, 1979 and 1978 were as follows:

| | 1979 | | 1978 | |
|---|---|---|---|---|
| | (Amounts in thousands of dollars) | | | |
| | Shares | Amount | Shares | Amount |
| Under Stock Purchase Plans | 330,200 | $ 5,883 | 308,200 | $ 3,235 |
| In exchange for shares of a subsidiary | 782 | — | 1,724 | — |
| On the exercise of an option | 120 | — | 1,600 | 11 |
| | 331,102 | $ 5,883 | 311,524 | $ 3,246 |

At December 31, 1979, 1,054,166 shares (1978 - 385,268) were reserved for issue as follows: 1,001,200 under the Company's Stock Purchase Plans, 26,900 for options granted or to be granted under employee stock option plans, and 26,066 for shares of a subsidiary not yet presented for exchange. The Company has made interest free loans to officers to enable them to purchase shares from the Company under stock incentive agreements. At December 31, 1979, $7,795,000 (1978 - $5,284,000) was receivable by the Company under the above arrangements and is included in Other Assets.

## 8. PARTICIPATION AGREEMENTS

Under various agreements, other than conventional farmout agreements, third parties have agreed to participate in the Company's exploration and development program in order to earn varying interests in the lands covered by the agreements. During 1979, approximately $166,901,000 was contributed under the above arrangements (1978 - $73,803,000).

## 9. NET INCOME PER COMMON SHARE

Net income per common share is calculated using the weighted monthly average number of shares outstanding of 44,624,000 in 1979 and 44,856,000 in 1978 which amounts have been reduced by the Company's pro rata interest in its outstanding shares held by Dome Mines Limited. The exercise of all outstanding stock options and presentation of all the outstanding shares of a subsidiary for exchange would have no material effect on the per share calculation.

Net income per common share calculations have been restated for 1978 to reflect the four for one split.

## 10. INCOME TAXES

Deferred income tax provisions amounted to $95,880,000 in 1979 and $47,467,000 in 1978 which amounts differ from the calculated tax obtained by applying the Canadian corporate tax rate to income before deferred income taxes. These differences are accounted for as follows:

| | 1979 | 1978 |
|---|---|---|
| | (Amounts in thousands of dollars) | |
| Corporate tax rate | 46% | 46% |
| Calculated income tax provision | $108,316 | $ 74,244 |
| Add (deduct): | | |
| Crown charges disallowed for tax purposes less provincial rebates | 20,316 | 13,723 |
| Federal resource allowance | (26,755) | (13,187) |
| Depletion allowance on Canadian oil and gas production income | (15,698) | (8,169) |
| Frontier exploration allowance | (2,583) | (12,081) |
| Investment tax credit | (1,825) | (3,807) |
| Manufacturing and processing tax rate reduction | (4,048) | (3,417) |
| Income debenture interest | 6,799 | 797 |
| Preferred share dividends of a subsidiary | 10,521 | 988 |
| Other | 837 | (1,624) |
| Deferred tax provision | $ 95,880 | $ 47,467 |

11. BUSINESS SEGMENTS

The Board of Directors of the Company has determined and recorded in the minutes of a Board meeting that Crude Oil and Natural Gas and Pipeline Transportation are the business segments of the Company.

| | Crude Oil & Natural Gas | | Pipeline Transportation | | Other | | Consolidated | |
|---|---|---|---|---|---|---|---|---|
| | 1979 | 1978 | 1979 | 1978 | 1979 | 1978 | 1979 | 1978 |
| | (In thousands of dollars) | | | | | | | |
| Sales to customers | $ 885,031 | $ 588,714 | $ 38,680 | $ 21,139 | $ 21,755 | $ 17,467 | $ 945,466 | $ 627,320 |
| Segment operating profit | $ 269,128 | $ 156,011 | $ 10,801 | $ 10,584 | $ 20,475 | $ 11,321 | $ 300,404 | $ 177,916 |
| General corporate expenses | | | | | | | (11,860) | (7,204) |
| Interest expense | | | | | | | (30,203) | (7,165) |
| Preferred share dividends of a subsidiary | | | | | | | (22,871) | (2,147) |
| Deferred income taxes | | | | | | | (95,880) | (47,467) |
| Equity in earnings of affiliated companies | | | | | | | 42,121 | 11,199 |
| Net income | | | | | | | $ 181,711 | $ 125,132 |
| Identifiable assets | $1,817,942 | $ 928,156 | $ 236,971 | $ 194,909 | $ 15,812 | $ 7,845 | $2,070,725 | $1,130,910 |
| Current and other assets | | | | | | | 522,433 | 353,372 |
| Investments | | | | | | | 537,335 | 229,088 |
| Total assets | | | | | | | $3,130,493 | $1,713,370 |

Interest on borrowed funds related to identifiable assets of each business segment has been deducted in arriving at that segment's operating profit. Interest on funds borrowed for general corporate purposes is reported separately.

12. ACQUISITIONS

During 1979, the Company acquired interests in the assets of several companies including those previously held by Siebens Oil & Gas Ltd. and Mesa Petroleum Company for a net consideration of $310,964,000.

13. SUBSEQUENT EVENT

Effective February 1, 1980, the Company purchased all the outstanding common shares of Kaiser Petroleum Ltd. for a net consideration of approximately $700,000,000. Interim financing for this acquisition was arranged through a consortium of Canadian chartered banks. The loan is secured by the shares of Kaiser Petroleum Ltd. and certain shares of Dome Mines Limited.

# FIVE YEAR REVIEW

*(Dollar Amounts In Thousands Except Per Share Figures)*

| **FINANCIAL** | **1979** | **1978** | **1977** | **1976** | **1975** |
|---|---|---|---|---|---|
| **Revenue (after royalties)** | **945,466** | 627,320 | 518,733 | 384,652 | 234,669 |
| Cost of Product | **328,118** | 292,117 | 254,261 | 212,977 | 123,184 |
| Operating and General | **184,763** | 94,124 | 74,473 | 44,956 | 21,726 |
| Interest | **111,296** | 46,514 | 29,446 | 18,068 | 11,058 |
| Depreciation and Depletion | **62,948** | 31,018 | 24,724 | 18,059 | 13,688 |
| Preferred Share Dividends of a Subsidiary | **22,871** | 2,147 | — | — | — |
| **Income Before Deferred Income Taxes** | **235,470** | 161,400 | 135,829 | 90,592 | 65,013 |
| Provision for Deferred Income Taxes | **95,880** | 47,467 | 33,779 | 36,021 | 23,893 |
| Equity in Earnings of Affiliated Companies | **42,121** | 11,199 | 2,235 | 683 | — |
| **Net Income for the Year** | **181,711** | 125,132 | 104,285 | 55,254 | 41,120 |
| Average Shares Outstanding | **44,624,000** | 44,855,000 | 44,925,000 | 46,006,000 | 45,002,000 |
| Net Income Per Common Share | **3.90** | 2.79 | 2.32 | 1.20 | 0.91 |
| **Cash Flow From Operations** | **323,395** | 198,741 | 163,535 | 110,186 | 80,356 |
| **Long Term Debt** | **1,332,161** | 577,122 | 520,466 | 372,391 | 239,762 |
| Capital Expenditures* | | | | | |
| Exploration and Property Acquisitions | **560,294** | 211,014 | 161,790 | 48,108 | 59,447 |
| Development | **166,557** | 69,542 | 15,500 | 26,857 | 24,051 |
| Plants, Pipelines and Related Facilities | **54,626** | 95,328 | 129,160 | 39,618 | 30,401 |
| Drillships and Supply Vessels | **78,258** | 10,917 | 15,490 | 93,559 | 77,005 |
| **Total Capital Expenditures**** | **859,735** | 386,801 | 321,940 | 208,142 | 190,904 |

| **OPERATING** | | | | | |
|---|---|---|---|---|---|
| **Gross Production** — Daily Average | | | | | |
| Oil, Gas Liquids and Oil Equivalent of Gas - Barrels | **90,940** | 65,657 | 51,756 | 45,600 | 39,312 |
| Oil and Gas Liquids - Barrels | **51,802** | 43,846 | 33,487 | 30,130 | 29,238 |
| Gas Production - MMCF | **275.8** | 164.3 | 147.8 | 143.1 | 135.3 |
| **Gross Reserves***** | | | | | |
| Estimated Recoverable Oil, Natural Gas Liquids, and Oil Equivalent of Gas Reserves - Millions of Barrels | **665.9** | 379.9 | 332.0 | 307.6 | 239.6 |
| **Land Holdings** — Acres | | | | | |
| Gross Working Interest | **66,938,000** | 42,150,000 | 42,475,000 | 43,173,000 | 42,310,000 |
| Net Working Interest | **35,906,000** | 21,235,000 | 20,670,000 | 22,529,000 | 21,224,000 |
| Gross Royalty Interest | **31,660,000** | 26,789,000 | 29,823,000 | 26,570,000 | 34,364,000 |

See page 22 for Management's discussion and analysis of the Company's Financial Statements for 1979 and 1978.

* Includes investment in Panarctic Oils Limited

** Exclusive of corporate acquisitions

*** Excludes the Company's interest in heavy oil reserves at Hughenden and the Athabasca Oil Sands in Alberta, substantial gas reserves in the Canadian Arctic Islands and major oil and/or gas discoveries in the Beaufort Sea.

## DIRECTORS

NORMAN J. ALEXANDER,§
*Winnipeg, Manitoba*
Investment Consultant

FRASER M. FELL, Q.C.,
*Toronto, Ontario*
Partner, Fasken & Calvin

JOHN P. GALLAGHER,*
*Calgary, Alberta*
Chairman

MACLEAN E. JONES, Q.C.,§
*Calgary, Alberta*
Partner, Jones Black & Company

MALCOLM A. TASCHEREAU,*
*Toronto, Ontario*
Chief Executive, Dome Mines Limited

WILLIAM E. RICHARDS,*
*Calgary, Alberta*
President

FREDERICK W. SELLERS,§
*Winnipeg, Manitoba*
Chairman, Spiroll Corporation Ltd.

JOHN L. LOEB,
*New York, N.Y.*
Honorary Chairman
Shearson, Loeb Rhoades, Inc.

A. BRUCE MATTHEWS,
*Toronto, Ontario*
Chairman, Dome Mines Limited

WILLIAM F. MORTON,*
*Winchester, Mass.*
Investment Manager

§ Audit Committee Member
* Executive Committee Member

## GENERAL COUNSEL

ROBERT C. MUIR,
*Calgary, Alberta*

## OFFICERS

JOHN P. GALLAGHER,
Chairman and Chief Executive

WILLIAM E. RICHARDS,
President

JOHN ANDRIUK,
Senior Vice President

JOHN M. BEDDOME,
Senior Vice President

PETER N. BREYFOGLE,
Senior Vice President

GORDON R. HARRISON,
Senior Vice President

ROBERT R. ANDREWS,
Vice President, Marketing

GRAHAM W. BENNETT,
Vice President, Administration

RAYMOND R. FORSETH,
Vice President, Land & Funds

ROBERT W. GILLANDERS,
Vice President, Business Development

DONALD R. GILLEY,
Vice President, Corporate Planning

RAYMOND C. J. JAENEN,
Vice President, Research

H. JAMES STRAIN,
Vice President, Drilling

PETER J. VAN ALTENA,
Vice President, Exploration

ANDREW H. YOUNGER,
Vice President, NGL

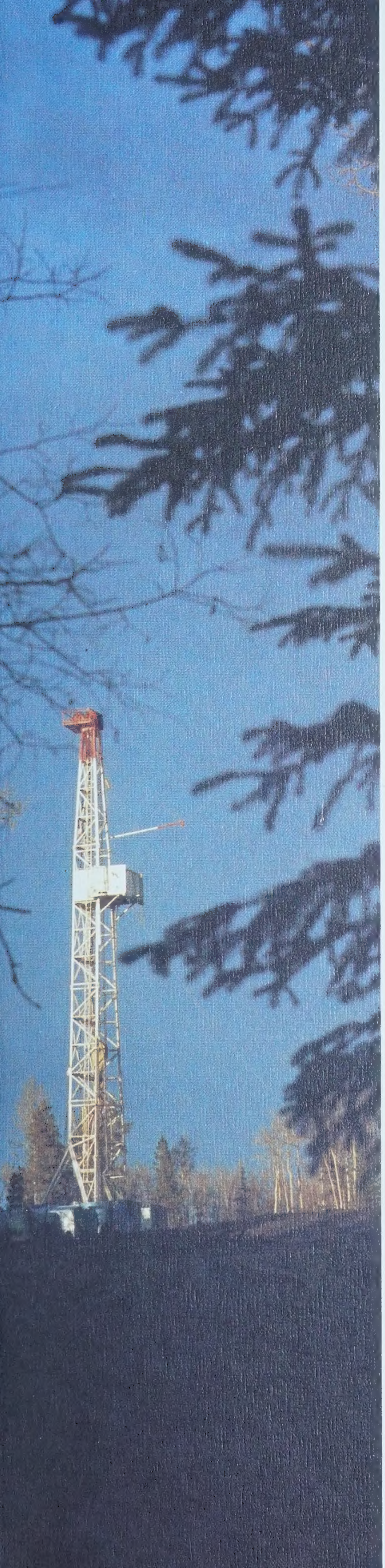
HENRY T. ASTLE,
Treasurer

HARRY M. EISENHAUER,
Secretary

VICTOR J. ZALESCHUK,
Controller

This table shows the high and low price at which shares of the Company sold on the American Stock Exchange during each quarter of 1979 and 1978:

| | First Quarter | | Second Quarter | | Third Quarter | | Fourth Quarter | |
|---|---|---|---|---|---|---|---|---|
| | 1979 | 1978 | 1979 | 1978 | 1979 | 1978 | 1979 | 1978 |
| High | 29¾ | 14⅜ | 44⅜ | 15⅛ | 48 | 22⅞ | 48⅜ | 20⅜ |
| Low | 10¾ | 11⅞ | 26⅛ | 13⅛ | 33 | 13⅜ | 35½ | 14⅜ |



**HEAD OFFICE**

The Dome Tower,
333 - 7th Avenue S.W.,
Calgary, Alberta, Canada

Mailing Address
P.O. Box 200,
Calgary, Alberta, Canada
T2P 2H8

**AUDITORS**

Clarkson Gordon
Calgary, Alberta

**STOCK LISTINGS**

Toronto Stock Exchange
Montreal Stock Exchange
American Stock Exchange

FORM 10-K

Copies of the Annual Report on Form 10-K filed with the Securities and Exchange Commission of the United States are available free of charge by writing to the Corporate Secretary of the Company.

DOME PETROLEUM LIMITED 1979 ANNUAL REPORT

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